

'Stimulus' and the States

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The states are now in a precarious position. The economy is slowing down. Tax revenues are falling. And demand for expensive services – health care, food assistance and the like – is growing.

A slowing economy is never easy. But this year, the states' fiscal crunch is being made worse. That's because misguided policies put in place by Congress and the Bush administration have either forced states to spend money or driven away tax revenue.

Before anyone in Washington seriously contemplates a second "stimulus package" aimed at reviving the economy, I would offer two succinct pieces of advice: First, take a Hippocratic Oath to do no harm to state budgets. Second, ensure that Washington "pays its bills," just as we require of everyone else.

Let's start with doing no harm. The plain fact is that the first stimulus package violated this principle, and will result in nearly \$2 billion in revenue loss to states. State taxes are based on the amount of federal taxes individuals and businesses pay. So when the stimulus package cut federal business taxes, it also cut state taxes and thereby cost us revenue.

Fortunately, Congress is considering bipartisan legislation in both the House and Senate that would provide new resources to help states.

Now, let's talk about Washington paying its bills. The Bush administration has perfected the nasty habit of cost-shifting to the states. Examples are plentiful:

- *The State Child Health Insurance Program (Schip)*. The beauty of Schip is that it is a federal-state partnership. Yet in August 2007, President Bush stopped states from expanding Schip to cover children in families who earn more than 250% of the federal poverty level. As a result, states must now carry the additional burden of providing health care for these children.

- *Medicaid*. The administration has also proposed or issued eight different regulations that alter the federal-state Medicaid partnership. In most cases, these regulations simply shift costs to states and localities. Collectively, they will reduce federal investment in Medicaid by \$50 billion over the next five years. It's not as if poor people no longer need

health care. Instead, these regulations are simply a maneuver to have someone else (i.e., the states) foot the bill.

- *State Criminal Alien Assistance Program*. By law, the federal government must reimburse states for the cost of incarcerating illegal immigrants who break state laws. But for years, the federal government has only reimbursed a fraction of the cost.

Arizona's unpaid bill is nearing \$500 million. As governor, I must enforce the law and pay to incarcerate these individuals. The federal government just shrugs its shoulders and walks away from its statutory obligation.

- *Real ID*. The federal government passed Real ID so everyone would have a secure identification card. But it didn't pay states to do the work. Estimates for implementation run as high as \$11 billion.

Even if you accept the Department of Homeland Security's suggestion that costs may be closer to \$3.9 billion, this is a large unfunded liability. States are not in a position financially, nor inclined from a policy perspective, to bail out the federal government on Real ID.

- *Byrne-Justice Assistance Grant program (Byrne-JAG)*. This is the only federal, comprehensive crime-fighting program in existence. Yet, the Byrne-JAG grants were cut by 67% in the omnibus appropriations bill that was passed last year.

Grants would have funded multijurisdictional drug and gang task forces, information sharing and technology, county jails, prosecutors, drug courts, juvenile delinquency and drug treatment programs. Now, states – as well as counties and municipalities – are on their own.

There are dozens more examples. Even if the federal government paid up on only a few of its debts mentioned here, Arizona would not be in deficit this year. It's that simple.

Rest assured, states will manage their economic challenges and balance their budgets as they have before – 49 of the 50 states are legally required to have balanced budgets. But Washington's failure to meet its obligations is forcing states to cut education, health care and other vital services. The federal government should accept its responsibility, do no harm and pay its bills. Once it does, we can work together to improve the quality of life for those we are privileged to represent.

Ms. Napolitano, a Democrat, is the governor of Arizona.